A Stitch in Time?

In early October, the finance ministers of the European Community (EC) raised the value of the German mark (as well as of the Dutch guilder) by 5.5 percent, and lowered that of the French franc and the Italian lira by 3 percent, against the other EC currencies. These changes were made within the framework of the European Monetary System (EMS), the Community's joint currency float against the dollar and other outside currencies. (The United Kingdom so far has not joined the EMS.)

While the realignment was hailed by European bankers and businessmen as "unavoidable and long overdue," its immediate effects are difficult to predict. Generally speaking, by making exports of France and Italy more competitive and imports more expensive, the change is designed to reduce those countries' trade deficits and help restore international confidence in their currencies. The French authorities already have announced that now there would be no need to impose import controls as they had threatened.

German goods now will be more costly on foreign markets, but German producers are confident that the impact on their exports will only be marginal. Certainly, the D-mark revaluation will help dampen inflation imported from other EMS partners. Two days after the realignment, the German central bank in fact lowered its so-called Lombard rate—the rate it charges to banks on borrowings secured by securities collateral.

check inflation's growth." Moreover, he adds, if the promised socialist reforms should backfire, inflation could increase at an alarming pace over the next few years before any retrenchment in the program could succeed in curbing it.

In fact, given the dimensions of the change in climate in France, any projections made at this time "are clearly subject to wide ranges of potential error." But even so, the panel feels that certain broad conclusions about the future course of the French economy can be drawn. Any major resumption of business investment has been dimmed by nationalization and by an official policy that is generally regarded as unfavorable to the business community. "The prospects of higher wage costs, the possibility of a 35-hour workweek and a fifth week of annual vacation, and the likelihood of higher taxes, fewer investment incentives and higher interest rates all point to shrinking margins and severe weakness in the investment sector over the next few years." That weakness will be partially offset, however, by increased consumer spending, particularly at the lower end of the income scale.

On the other hand, the combination of these factors will also tend to boost inflation—especially the anticipated decline in investment and productivity. The brunt of this would be borne by companies as their labor costs rise, and it is an open question at this time whether the government would try to counter this by re-imposing price controls—which the previous government had dismantled. However, the new government is said to be fully aware of the constraints that high inflation, a substantial balance-of-payments deficit, and the need to maintain investor confidence in France are placing on its freedom of action. The consensus, therefore, is that while France is about to take a step leftwards, it is a relatively small one, but one that nevertheless may weaken her economically.

In mid-1981, the "five wise men" of **Germany**—that country's equivalent of the U.S. Council of Economic Advisers—presented to the government a rather embarrassing report on the state of the German economy. The report pointed out that uncontrolled government spending, a huge balance-of-payments deficit, and immoderate wage demands on the part of the unions were the principal reasons behind Germany's prolonged recession. The report did not link the country's continued sluggish growth to the effects of high U.S. interest rates.

While the German council is required by law to produce one report a year and can also be asked by the government to provide additional analyses, it is rare indeed for it to produce a report on its own initiative—and when it does, it can be taken as a clear sign that the economy is in trouble. Indeed, the deficits run up by the huge public sector—federal, state and local authorities—have grown rapidly since the first oil shock in 1973, while the balance of payments on current account last year racked up the biggest deficit—some $16 billion equivalent—among the western countries. The ensuing fall in the value of the D-mark and the consequent need to keep interest rates high or raise them even further to control the outflow of funds have imposed severe restraints on the conduct of domestic monetary policy.

Yet, in its monthly report for September the Bundesbank, the country's central bank, noted how the German economy had made notable progress in the preceding months "in adjusting to the changed external conditions." In a highly optimistic analysis, the bank concluded that gloomy prophecies of continued recession had failed to materialize and that gross national product during the first half of 1981 had maintained the level of the previous six months. This development, in turn, had to be attributed to strong exports, and the high backlog of foreign orders was expected to continue exercising a stimulating impact on the economy. The bank considered

and then they wonder why they don't feel so good. We could not get them to eat a good breakfast, but what we did do is to provide midmorning snacks that were especially fortified with a sandwich-like meal, and that did provide necessary nutrition."

A communications company representative reports that his company supplies a substantial meal to employees in many less-developed countries, including Chile, Argentina, Brazil and Angola. The meal is of a high protein variety, specifically designed to insure high energy levels. The executive believes that supplying the meal has not only provided increased nutrition for employees, but has also allowed workers to stretch their family food budgets and increased the nutrition of spouses and children. Another firm has a similar program and, in order to assess the nutritional impact on both the workers and their families, invites all employees and family members in for a free annual checkup. This company has been providing meals for its employees for several years; and in a recent annual servey could find only four out of two thousand children examined who were malnourished.

Besides providing company meals, firms are also interested in giving employees more information about their nutritional needs and the ways they can be met from local food sources. Again, custom sometimes interferes with these efforts. For example, one firm operating in the Transvelt says that local tradition provides that employers would supply workers with a quarter of a loaf of bread each day, and that the bread would be spread with a lardlike substance. But the company nutritionists soon found that this "diet supplement" still left workers with substantially unbalanced diets. They mounted an educational campaign among the work force and provided additional food supplements. After some months, significant improvements in fatigue levels were reported.

Even more dramatic results can be achieved in government-sponsored, societywide nutritional education programs. In Haiti, for example, approximately two-thirds of all the children suffer from malnutrition. In a combined MIT-Harvard nutrition education program, implemented at government nutrition centers in Haiti, mothers learned how to prepare more nutritious meals by combining beans with rice, corn and sorghum—all locally available foods. The MIT-Harvard program found that in one district of 100,000 people, hospital admissions for malnutrition fell by more than 50 percent in seven years. And the death rate as a result of malnutrition for children under four years of age, declined by 83 percent. Somewhat similar programs in Nepal and Indonesia have also produced significant reductions in malnutrition, particularly among infants.

Companies also report that they are attempting to help employees stretch their family food dollars by either acting as a purchasing agent for food materials—particularly in areas of the world where food distribution systems are inefficient or inadequate—or by helping employees to form their own food purchasing cooperatives. One American company in Peru says that it goes a step further and provides its employees with a basic ration that not only includes company food products manufactured in Peru, but other of the firm's products made in other parts of the world. Such basics as toilet paper and soap, which are not made by the company, are also included in the ration.

The forum participants were asked to try to assess the precise results that their companies' various nutritional programs have produced. But pinpointing such benefits proved a difficult task, and very few of the firms questioned have any precise data on this point. In general, their position is summed up by a company representative reporting on his firm's experience in South Africa: "Our feeling is that if we offer a nutritional meal, either free or at a very reduced cost, and employees take advantage of it, there will be improvements in both attendance and productivity. But at this point, I think, we are just doing this on a gut feeling that improvements must result from such programs."

Company Sponsored Health-Care Facilities

Besides providing nutritional support for employees in the form of meals and food supplements, companies also build health-care facilities, ranging from clinics to full-fledged hospitals, to serve the health-care needs of their employees and of nearby resident populations. Several of the forum participants noted that their companies routinely conduct health-facility surveys in areas in which they intend to look at new plants. They examine the public-health infrastructure and the availability of trained medical personnel in these areas. One executive, reporting on his firm's experience in a South American country, says: "We felt it necessary to make massive additional investments in upgrading the quality of local health services. That turned out to be an investment over and above what we were required to do by the government of that country. But we did it on the theory that it would pay back sooner or later, even if we were not able to measure the effects accurately."

It might be assumed that firms would be most likely to develop extensive local health-care facilities in rural and remote areas, districts in which there is practically no health infrastructure. But the company executives say that in nearly every case their firms have operations that are also located in major urban centers in the LDC's. And even in these areas the firms frequently operate health-care facilities, including clinics and hospitals.

One major food producer, operating in Central America, reports that it has operated a system of clinics in outlying production areas, and a general hospital in a major port city, for nearly 80 years. These facilities provide free health care to employees and subsidized help to

the expansion of exports "particularly noteworthy," since it came at a time when total world trade was growing only slightly.

These contrasts between longer range basic problems and an incipient economic recovery were mirrored in the views expressed by The Conference Board's panel. As one panelist saw it: "Germany, the pivotal European economic power, faces constraints on its growth." He then cited the forecast by one of the large German banks that real annual growth would decline from 3.5 percent during the past five years to 2 percent or so in the next five. And while this year's wage increases of around 5 percent were somewhat below the current rate of inflation, the outlook for inflation and, hence, for continued wage moderation has deteriorated with the threat of inflation imported from France.

However, there is general agreement among the panelists that the current recession is over—or at least has bottomed out—although there is less agreement on when the recovery will take off. Opinions ranged all the way from "improvement in the second half of 1981 followed by full-fledged recovery next year," through growth resuming "early in 1982," to "slow recovery after June, 1982." However, investment growth, especially in the construction sector, is seen as remaining weak until late in 1982 as low capacity utilization rates, uncertain demand prospects, flagging confidence, high interest rates, and unstable exchange rates all take their toll.

Nor did the panel fail to single out the public sector deficit, which has become a political issue. In the first quarter of 1981, the deficit for all levels of government amounted to almost 8 percent of gross national product, up from 5.5 percent a year earlier. According to one calculation, the total for this year might easily absorb up to one-half of private savings. The budget for 1982, presented at the beginning of September, thus provided for an increase in spending of only 4.2 percent, equivalent to no change in real terms, and a 25 percent drop in the deficit.

On inflation, which has remained moderate (although not necessarily by German standards), one panelist noted that there had not been the sharp surge in prices that had originally been feared. One of the reasons was that, although the D-mark had depreciated markedly against the dollar, the dollar is merely "first among equals in Germany's trade pattern." Of Germany's foreign trade, only about 6 percent is with the United States as against over 60 percent with Western Europe. And while the D-mark had depreciated by 20.5 percent against the dollar between the end of 1979 and last Summer, its weighted rate against the currencies of Germany's 23 most important trading partners was down only 1.5 percent over the same period. What inflationary pressures did arise because of higher import prices are expected to recede in 1982, and an average annual inflation rate of around 4 percent is foreseen through 1986.

With German exports of goods and services accounting for about one-third of economic activity, considerable attention was given by the panel to the trade situation. "We seem to be watching an old-fashioned export-led recovery," was one comment. Indeed, in its September report the Bundesbank noted that German exporters apparently had refrained from exploiting fully the margin created by the depreciating mark, since export prices quoted in D-mark rose by no more than those charged in domestic markets. In conjunction with an improving trade position and a declining current-account deficit through July, the Bank therefore sees the external adjustment as having made greater strides than expected at the beginning of the year. Indeed, as one panelist observed: "The mark's decline may have sown the seeds for trade improvement and economic recovery in the second half."

Finally, while several panelists allude to the possible political consequences of the weak economy, budgetary stringency, and a weak currency, one repondent feels that "Germany will not have wide enough swings in the ruling party or coalition sufficient to disrupt basic economic policies over the next several years."

One of **Italy's** leading banks commented earlier this year: "The years ahead—which are crucial for the Italian economy—are not going to be fat ones. The stagflation scenario—with its unavoidable social repercussions and the payments disequilibrium—can only be cured through the implementation of a well-conceived post-oil industrial reorientation effort, which is only now beginning to get under way—long after the first 1973 warning bells."

Indeed, while Italy had been able to achieve in both 1979 and 1980 the fastest growth of any member of the European Community—5 and 3.8 percent, respectively—official Italian forecasts now assume that the average annual growth rate over the coming three to four years will be no more than between 2 and 3 percent. The adoption of more restrictive monetary measures this year in March and May, in order to stem and perhaps reverse the deterioration in the balance of payments, is expected to result in a sharp decline in business investment.

This scenario is not being helped by continuing political instability—the 41st postwar government, headed by Giovanni Spadolini of the small Republican party, came into office in the Spring. The new government's economic platform does not diverge much from that of the previous government in its emphasis on stepping up the fight on inflation and pursuing more energetically the objectives of the three-year plan submitted earlier in the year by the outgoing Forlani government. However, the new platform is somewhat more specific on how the public-sector deficit is to be kept down and, more important, on a new social pact with the unions and management in order to deal with wage-induced inflation.

Specifically, the government has suggested replacement of the system of wage indexation, the famous *scala mobile*, under which the average wage earner is now compensated for 70 percent of the rise in prices. The government has proposed basing wage adjustments instead on a "target" set for the annual increase in the cost-of-living index. If by year-end the CPI increase was above target, the government would bear part of the cost, but companies would also be wary of raising their prices too sharply.

The rather discouraging outlook for the Italian economy was fully shared by the survey respondents. Economic conditions were variously characterized as "stagnating"; inflation "continues to plague Italy"; prospects for investment expenditures over the next two years "are not good"; and the weak condition of the balance of payments "will remain a constraint on growth for the foreseeable future." Others used considerably stronger language: "Italy's economy continues in a mess and the government must change or reduce its indexation system, reduce public debt, and control the money supply. The short-term outlook is poor."

Under these circumstances and with the political scene likely to remain volatile, another panelist noted that it is "difficult to predict the economic outlook." Most panelists agreed, moreover, that any economic recovery to speak of would not set in "until early next year," when the country's economy, in the words of another, "should be back on its longer-term growth path."

The major contribution to inflation in Italy at this point is seen as coming, as it has in the past, from continued record wage adjustments. (As one panelist noted: "Until the *scala mobile* is either eliminated or significantly modified, the prospects for a substantial reduction in inflation will remain suppressed.") As mentioned, barely 24 hours before the country's national wage-indexation agreement was due to expire on June 30, the new government convened a meeting aimed at lessening the impact of that device. In addition to the proposal already cited—which would encourage employers to keep price increases to a minimum—another suggestion was to eliminate imported raw-material and energy costs from the index used for computing the *scala mobile*. This would help protect Italy's domestic cost pattern from price increases originating abroad, a step especially desirable as the lira has continued to depreciate (see box).

All in all, the panel saw little prospect for an economic and political climate conducive to business. One respondent felt that the new government "does not seem strong enough to rejuvenate the Italian economy, while attacking the current 20 percent inflation rate and reducing the high level of unemployment." Another found it "difficult to foresee a political-economic environment in Italy that is supportive toward business." Especially since the government is a minority-led coalition, "compromise will continue to be prevalent in determining economic policy, thus weakening and diffusing the effectiveness of anti-inflationary measures."

The panel also felt that a mere tight-monetary policy was not the proper long-term cure for the kind of inflation now embedded in the Italian (and other industrial) economies. The major hope is seen instead in the medium-term program for 1981-1983, presented to parliament last April. The program's main emphasis is on sharply increased government investment in some 20 sectors selected on the basis of various criteria, such as the easing of external constraints (energy, agriculture, tourism); the restructuring of sectors in serious difficulties (chemicals, steel, shipbuilding); and improving social infrastructures (housing, health and transportation). This is, admittedly, a rather heterogeneous package whose impact cannot be easily foreseen at this time.

The Lira and the Dollar

Italy has been the country hardest hit by the strengthening of the dollar. Not only has the dollar appreciated more against the lira than against any other major currency (see Chart 3), but the structure of Italy's foreign trade makes this particularly burdensome. While traditional Italian exports—such as textiles, clothing and shoes—go primarily to European countries, most of its basic imports—oil and other raw materials—are priced in dollars.

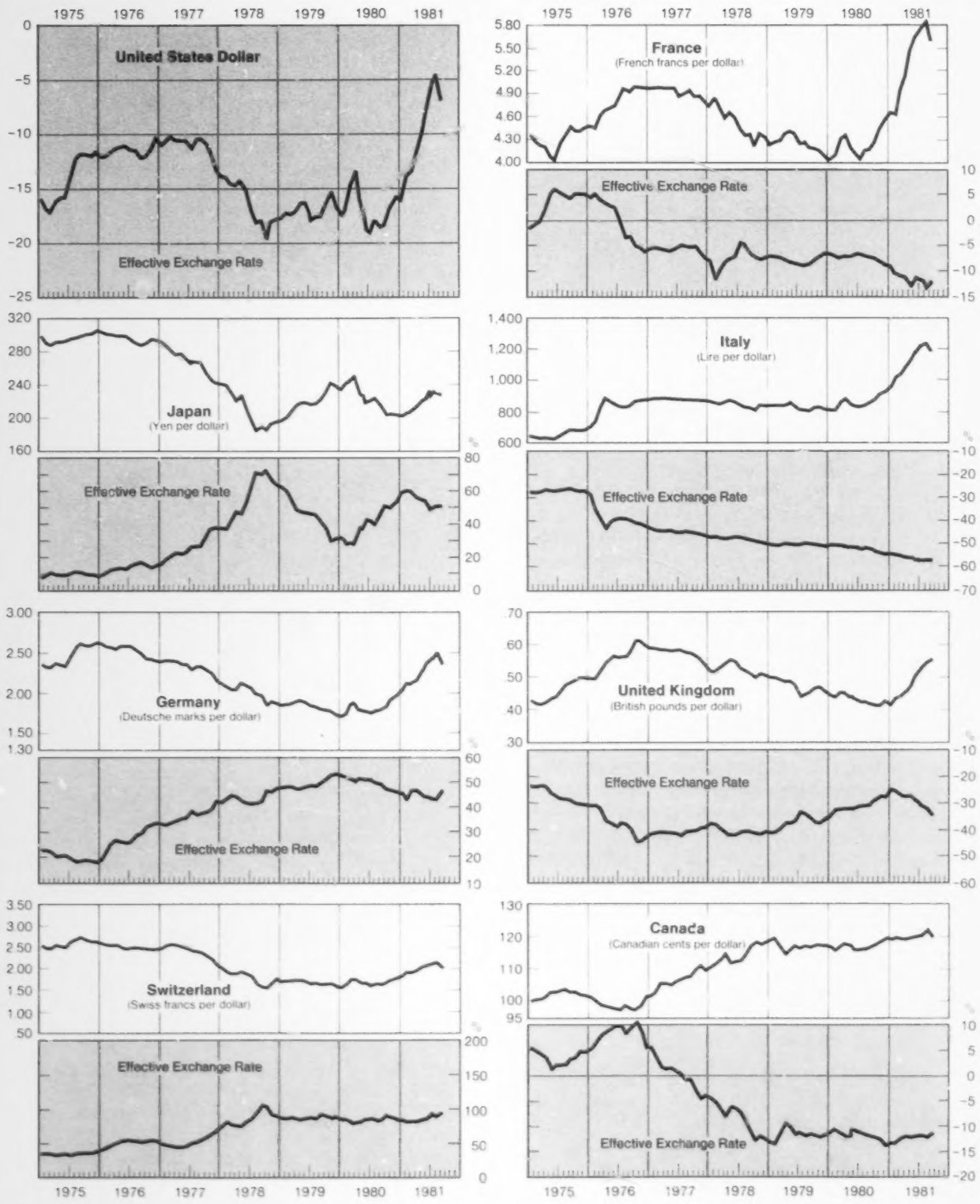
In 1980, when the lira ranged between 820 and 930 per dollar, about 40 percent of total Italian imports of $85 billion had to be paid for in dollars. The oil import bill alone came to over $17 billion, equivalent to nearly the entire trade deficit.

It has been estimated that, with an identical volume of imports and unchanged import prices, every additional 100 lire decline against the dollar raises the domestic price level by 1 percent. The *scala mobile*, in its present form, boosts that increase by a further ½ percent. By late July, the lira had dropped to 1,225 per dollar. While it eased back to around 1,170 at the end of September, most forecasts see a further depreciation over the next few years.

Regarding the **United Kingdom**, the Midland Bank noted last Summer: "If the Chancellor of the Exchequer and his colleagues feel like a break, they could well spend it orienteering. This relatively new sport in Britain, which has a growing number of enthusiasts, requires competitors to navigate unknown territory via a series of checkpoints. Success depends upon a quick and accurate assessment of where one is standing and a correct choice of the route ahead from the alternatives available." The Chancellor apparently felt sure of where he was at when, on July 30, he announced to a disbelieving House of Commons: "We are now at the end of the recession."

Chart 3

FOREIGN EXCHANGE RATES



Effective Exchange Rate for each country indicates changes vis-à-vis a group of 15 major currencies, weighted according to the average bilateral manufactures trade of 1976. Changes are in percent from pre-June 1975 parities, based on monthly average of daily rates.

Source: Morgan Guaranty Trust

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While that statement obviously was politically motivated—the government of Margaret Thatcher was facing a growing challenge from reflationist ministers—the numbers then available could be interpreted as supporting such a claim. Compared with the second half of 1980, when output had declined at an annual rate of almost 7 percent, the first six months of 1981 had seen a general leveling in economic activity. This was, of course, a mere "bottoming out," rather than a true recovery, but in most quarters the data were interpreted as heralding a distinct turning point in the country's economic fortunes.

At the same time, however, a private British forecasting group, using the Treasury's own forecasting model but making its own assumptions about a number of exogenous variables, came out with a much glummer scenario (see tabulation below). Although the decline in activity was going to halt this year, the ensuing recovery was to be extremely feeble—with perhaps a 1.5 percent rise in gross national product in 1982. Moreover, as *The Economist* paraphrased it, "inflation remains in double figures until the next election. The narrow definition of registered unemployment is only held below the 3 million mark by the flight of discouraged workers out of the labor force. And the golden age of tax cuts financed by North Sea oil never really arrives."

Medium-term Outlook for the United Kingdom (in percent)

	1982	*1983*	*1984*	*1985*
Economic growth	1.5	0.7	0.5	0.5
Retail prices	12.1	11.0	10.0	9.2
Unemployment	11.5	11.5	11.5	11.7

The panel knew that most recent private forecasts for the United Kingdom had been somewhat more pessimistic than official pronouncements, but felt that much of that pessimism concerned "the strength of the recovery rather than its timing." Evidence that the economic slide had ended was "now plentiful." Most respondents saw slow recovery of perhaps as little as ½ percent, in 1982—some as late as the third quarter—with one commenting that "1983 and 1984 will hopefully grow a bit more."

One panelist wrote: "On the surface it is easy to argue that the two-year-old Thatcher experiment failed. The recession has been much more severe and more prolonged than most had predicted. Unemployment stands at its highest since the depression-plagued 1930's. Yet inflation, though significantly reduced, clings on at a surprisingly high 11 percent. Yet it is the facile search for scapegoats which is more apparent, as though inefficiencies encrusted during more than half a century could be flushed away in two years."

Most panelists assumed some further progress on the inflation front, with the average annual rate, according to one view, coming down to 10.5 percent over the next few years. However, with the recent sharp fall of sterling against the dollar, prospects for inflation rates have clearly deteriorated again since The Conference Board's survey was mailed in July. It was, in fact, the strength of the exchange rate in 1980 that had been a major factor in containing inflationary pressures, both by reducing import costs and limiting the extent to which cost increases could be passed on. In the twelve months ending last January, for example, raw material and fuel costs of manufacturing industry rose by only 8 percent. However, since its peak in January, sterling had fallen by about 25 percent against the dollar by late September. This put renewed upward pressure on the sterling cost of dollar-priced commodities.

What has caused this pronounced reversal in the fortunes of the pound? There were three factors supporting sterling at the beginning of 1981. One was what has been called the "Thatcher factor," that is, belief that the government would not falter in its determination to battle inflation. The second was the pound's status as a "petrocurrency"; and the third was the level of British interest rates, which then were among the highest.

The "Thatcher factor" was seriously weakened in February, when the government, which had proposed to close 23 coal mines, capitulated to the threat of a national strike by the coal miners. At the same time, the drop in world demand for oil drove down prices and reduced the attraction of sterling on that score. Finally, the interest-rate structure in a number of countries (not only in the United States) has moved to the disadvantage of British rates. On top of all this, the riots in major British cities last Summer served to damage the country's image of stability and put in doubt the government's ability to cut public expenditures further.

One sector on which the panel was cautiously optimistic was exports, thus bearing out the findings of a survey carried out last Summer by the Confederation of British Industry. According to that survey, 12 percent more firms were optimistic than pessimistic about export prospects over the ensuing twelve months, the highest such margin for over three years. Exports have, of course, been helped by the recent fall in sterling. The biggest fall has been against the dollar; just as in the case of the D-mark, however, the overall drop in the effective exchange rate against the United Kingdom's major trading partners—and hence the gain in British competitiveness—has been more modest.

Moreover, the sharp deterioration in competitiveness in 1970-1980, when the pound was strong, is likely to hurt British exports for the next few years. At the same time, imports are predicted to grow even more strongly,

particularly in the short term, since they had been abnormally low during the winter of 1980-1981, when companies ran down inventories drastically. Thus, even with the help of rising oil exports, the balance of payments on current account is expected to go into deficit next year and to stay negative for some time.

Thus, the support which sterling has had over much of the present government's first two years in office from the large current-account surplus, and the prop which it thereby provided for the government's policy stance, will be diminishing. Some expected buoyancy in the domestic economy and in the world at large in 1982 will pose a threat to the decline in inflation, which is expected to be hovering around 9 to 10 percent by the time the next election rolls around—much the same as it was at the last one. Meanwhile, economic activity may not have recovered the level it was at then, while unemployment will be much higher.

APPENDIX

Selected Projections of GNP and Price Changes, 1982, for Smaller Industrial and Major Developing Countries (annual rates, in percent)

	Real GNP	*Consumer Prices*
Australia	3.5	10.0
	4.0	13.0
	4.3	8.8
Belgium	2.0	5.5
	2.0	7.0
	2.5	6.5
Denmark	1.7	8.2
Netherlands	1.9	5.8
	2.0	5.5
	2.5	5.5
South Africa	3.0	11.3
	4.5	14.0
Spain	2.5	13.0
	2.5	20.0
	3.5	12.5
Sweden	3.0	10.0
Switzerland	1.8	3.6
Argentina	2.0	120.0
	3.0	130.0
Brazil	4.5	100.0
	4.6	95.0
	5.0	70.0
Colombia	4.5	25.0
	5.5	27.0
Hong Kong	7.5	8.0
	10.0	13.0
Korea	5.0	20.0
	5.5	21.2
	6.0	22.0
Mexico	6.0	26.5
	6.8	24.0
	7.8	27.0
Singapore	9.0	7.0
Taiwan	7.5	13.0
	8.5	13.0
Venezuela	3.0	14.0
	3.0	22.0
	4.0	15.0

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not recommended
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Research Bulletin

Improving Productivity in Less-Developed Countries

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Business/Government Research Program

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About This Report

During the Summer of 1981, The Conference Board brought together executives from a cross section of American-based multinational companies in a forum to discuss the ways in which these firms attempt to boost productivity among workers in less-developed countries. The executives included specialists in manufacturing, personnel, organization and the general management of international operations. The firms represented included:

Johnson & Johnson
International Telephone & Telegraph Corporation
Castle & Cook, Inc.
General Foods Corporation
The Proctor & Gamble Company
The Firestone Tire & Rubber Co.
Champion International Corporation
Gulf & Western Ind., Inc.
Georgia-Pacific Corporation
International Business Machines Corporation
The Sherwin-Williams Company
The Goodyear Tire & Rubber Company
Blue Bell, Inc.
Schering-Plough International

The meeting was organized by the late Walter A. Hamilton, Vice President, Public Affairs Research of The Conference Board, and Frederick O. Pinkham, President, Omni Group, Inc. The meeting was sponsored by the Population Crisis Committee of the Draper Fund. This report is based on the commentary of the forum participants, plus additional statistical data available from Conference Board data resources.

Introduction

U.S. business has a growing stake in the economic vitality of less-developed nations. According to Department of Commerce data, more than a third of all U.S. exports now go to these countries, and U.S. exports of capital goods to the LDC's have increased from $5 billion in 1970 to $20 billion in 1978. In addition, U.S. investors are vitally concerned with the health of the LDC economies. At present, one-fourth of all U.S. overseas direct investments are in less-developed countries.

A variety of studies have documented the beneficial effect that multinational corporations in general, and American firms, in particular, have played in founding new industries, transmitting technological and managerial skills, and helping create new social relationships.[1]

In addition, it is also in the national interest for American-based MNC's to promote the stability of LDC's through economic and social development. Many of these nations, as former chairman of the Joint Chiefs of Staff Maxwell Taylor, U.S. Army (ret.), has testified to the Congress, are of vital importance to our national security (in hearings before the Select Committee on Population, Ninety-fifth Congress, *Overview of Trends, Consequences, Perspectives, and Issues,* April 19, 1978, Vol. I, pages 112-113). Countries such as Somalia and the Philippines, among others, occupy key geographic locations, providing vital bases for U.S. military forces. Others, such as a number of the African states, are the sources of critically needed metals and minerals.

American banks and manufacturing firms are often among the most prominent investors in LDC's and, in order to assure the integrity of those investments, American MNC's are naturally interested in promoting the stability of LDC economies and societies.

Of course, the multinational corporation is itself a source of controversy. Some observers see it as a positive force within Third World countries while its critics charge it with exploiting the people and natural resources of these nations. The supporters of multinational corporations claim that these business entities are often more economically efficient and socially sensitive than the host governments of nations within which they operate. The advocates hold that the MNC's have more efficient management, greater energy, and a global outlook which, they claim, better represents a peoples' world

[1]See, for example, Absolom L. Vilakazi, "Non-Governmental Agencies and Their Role in the Development of Africa: A Case Study." *African Studies Review,* #13, 1970; and Neal J. Jacoby, "The Multinational Corporation." *The Center Magazine,* May-June, 1970.

economic interest.[2] There is little doubt that as the social and political structures of LDC's have changed, the roles and demands placed on multinational firms have altered significantly. Companies are expected to play a greater role in assuring the health and welfare of their workers, as well as in filling their primary role by providing employment.[3]

These new roles have also made multinationals increasingly vulnerable to charges that they are shirking their corporate responsibilities.[4] To rebut such charges companies point to the effects that their employment has produced on local economies and the assistance they have given to developing the infrastructures of these economies, as well as improving the health and nutrition of workers and their dependents. In the final analysis, however, most observers agree that significant gains in the standard of living within LDC's will only be accomplished by commensurate gains in worker productivity within these nations. And, as the forum participants point out, productivity is the product of a complex equation involving cultural, attitudinal, social and physical factors. Common to all of these factors is the need to reinforce and improve the social and economic infrastructures of LDC's.

The U.S. View

The firms represented in the forum are U.S.-based multinationals. Most have literally dozens of operations, ranging from manufacturing to product distribution, in less-developed countries. They point out that the way American firms operate within these nations may differ somewhat from the philosophies and modes of operation of their European and Asian counterparts. For example, several forum members point out that American multinationals are sometimes perceived by the host governments as firms that tend to send in their own managers to run various operations, but then keep these managers in the countries for relatively short periods. The overseas assignments are seen, these host-government officials believe, as training for, or stepping stones to, higher positions within the multinational firm. By contrast, they assert, European and Asian multinationals tend to keep their people in place for much longer periods of time. Thus, the American companies are not thought of as having as much continuity in management as their competitors.

But the forum executives point out that it is the goal of many of their companies to train, and turn over management responsibilities to, local nationals as quickly as possible. They say that if American firms allowed their American managers to stay on in top-management positions for decades, there would be relatively little in the way of top-level promotional opportunities for LDC nationals employed by these firms.

The American managers also say that most U.S. companies are relatively visible, they do not make as determined an effort to blend into the local culture. In the long run, some observers believe, this may be a better tactic, since host-country politicians can see through companies' attempts to deny their presence or power within the LDC's. Instead, the executives point out that it is better to remain visible and to demonstrate and document the contributions that the firms are making to the nation's economy and social development.[5]

But at least some American firms apparently do not follow this same practice when operating in more developed economies. Conference Board researchers recently studied American multinational firms operating in Italy and were struck by the fact that many of the American executives were completely unaware that another major U.S. chemical company was also active in Italy. The latter firm had six subsidiaries functioning there, but apparently had integrated these subsidiaries so well into the Italian business community that they were not even regarded as American-owned companies—even by American executives of other companies operating nearby.

Transferring Productivity Concepts

A number of the forum participants report that they have experienced some difficulty in attempting to transfer productivity concepts developed in the United States to LDC's wholly and intact. For one thing, they point out, workers in plants located in LDC's may have significantly different attitudes about their social status and about work itself. Several of the companies report that an awareness of these differences has prompted them to conduct regular surveys in an attempt to develop yardsticks for employee attitudes about work and their particular jobs. Two firms report that they conduct annual surveys in several countries, using detailed questionnaires, in order to determine workers' views about the kinds of equipment that they have available to do their jobs, whether local working conditions are satisfactory, and the employees' evaluation of the pay and benefits the companies provide.

[2]Axel Madsen, *Private Power: Multinational Corporations for the Survival of our Planet.* New York: William Morrow & Company, 1980.

[3]John Humble, *The Responsible Multinational Enterprise.* London: Foundation for Business Responsibilities, 1975.

[4]Orville L. Freeman, and William Persen, "Multinational Corporations: Hope for the Poorest Nations." *The Futurist,* December, 1980.

[5]John Kenneth Galbraith, "The Defense of the Multinational Company." *Harvard Business Review,* March-April, 1978, and Vita Torres, "The Transparent Company." *Management Today,* July, 1977.

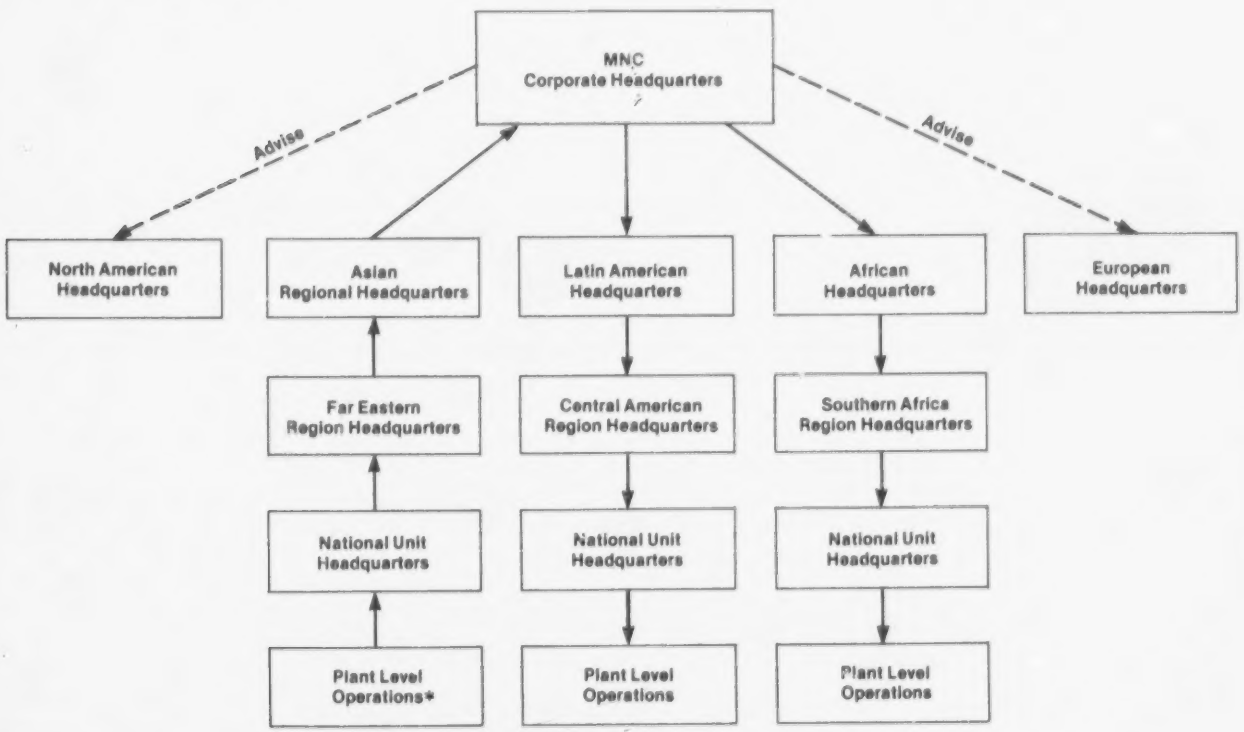
In a few cases, the transfer of productivity techniques is complicated by the attitudes of local national managers. One executive says: "There is a natural human propensity, when these managers look at some of our proposals, to say 'that is interesting, but it won't work in our situation because we are different.' But a lot of good things in the world have been rejected by people because they felt certain that their own situations were unique. In fact, many of these situations were not unique and there were certain common elements that suggested that the ideas could have been applied in their situation. Part of the problem, we find, is helping people to understand the things they have in common."

Recognizing that attitudinal obstacles may prevent implementation of some productivity concepts, companies report that they try to develop an overall philosophy of operation and then allow local customs and practices to fit into that philosophy. For example, one manager reports that, in Japan, "a very modern nation by any standards, we have X-ray machines in all our plants and office headquarters. This is because nearly every Japanese worker wants to have an X-ray every six months. I know it sounds ridiculous, but it develops from the high rate of tuberculosis that Japan used to have. Now there is practically no tuberculosis, but we still provide the X-rays. We can't really say that by providing the X-ray service we do any better work, or our workers are more productive. It's just a matter of perception of values."

Organizing the Productivity Effort

According to the forum participants, a major part of the impetus and direction for productivity improvements comes not from corporate headquarters but from the managements of operating facilities in the LDC's themselves. A few of the firms have a formalized organizational structure for productivity improvement, consisting of "productivity improvement teams" that are located at various levels of the company, beginning at the operating level in LDC's. Ideas for changes in company policy and practice, the acquisition of new equipment, and so on, flow up from these local productivity teams to regional headquarters, and then to corporate headquarters. Ideas that have international application then flow back from corporate headquarters to all plant levels where they may be applicable. (See Exhibit 1.)

Exhibit 1: Idea Flow Chart



* Idea origination

Ideas for productivity innovations may begin at a plant level in an LDC, flow up through regional units to corporate headquarters for analysis and evaluation. Then, if the idea shows promise, it will be sent back down to regional and local offices and plants in other LDC areas.

In general, the forum executives say, once traditional routes to productivity improvement—such as intensified capital investment and greater automation—have been exhausted, managements must then turn their attention to the characteristics of the local work forces, because they impose the most significant limits on the extent to which productivity can be boosted. As a result, the managers indicate, their companies are focusing their attention on the following elements:

(1) Employee and dependent nutrition and health
(2) Family planning and population control
(3) Literacy and educational infrastructures
(4) Job training and managerial succession
(5) Local government infrastructures.

Nutrition and Health

Increasingly, companies have concluded that the health status of employees in less-developed countries may be a primary limiting factor in productivity. The executives point out that poorly nourished, chronically ill work forces are just not going to be able to take advantage of productivity innovations companies may introduce. The World Bank recently concluded that only an increased emphasis on health and nutrition—as well as population control—would make it possible for LDC's to boost their gross national product.[6]

The forum participants are acutely aware of the relationship between work-force health and the company's responsibilities to participate in health-improvement programs. One manager states: "If you are going to go into a country and you are hiring low-skilled people who need better nutrition, you give them that nutrition. If there are no hospitals there, you are going to have to provide hospitals. That isn't the way we do business in the United States but, if you go to another country and you want to do business there, you have to provide the means to operate, whether it is training people in the necessary skills or providing a healthy environment so that you have reliable workers."

Other executives point out that when it comes to nutrition and health programs, the company cannot limit its attention solely to the worker and ignore his or her family. As one manufacturing specialist notes: "There is no point in having a well-fed employee who is going home to a starving family." And there is no doubt that that is exactly what is happening in some cases. Last year, for example, UNICEF estimated that 11 million children died during their first year of life due to malnutrition-related diseases.[7]

[6]The World Bank, *World Development Report*. Washington, D.C.: The World Bank, August, 1980.

[7]Stephen Solomon, "The Controversy over Infant Formula." *The New York Times Magazine*, December 6, 1981, p. 106.

Another executive points out that poor nutrition has long-term impacts on the company's ability to recruit and maintain middle-management workers. This executive says: "You need a pretty sound, healthy work force before you can hope to develop those managers or supervisors who are going to be with you for five, ten or twenty-year periods."

As far as nutrition is concerned, company practices tend to focus on three basic elements. These are:

(1) Company-supplied meals for workers
(2) Nutritional education programs
(3) Cooperative food-supply programs.

The origin and evolution of the company meal programs varied widely among the forum participants' companies. One firm's representative, for example, says that his company, in introducing operations in Central America, simply followed the "company store" approach already practiced by local plantation owners, but then expanded on the practice to provide more nutritionally balanced meals. In another company, the firm's U.S. president had been directly involved in a three-part nutrition, stress management, and physical exercise program for U.S. employees. The company extracted the nutrition portion of this program and transplanted it to South Africa with some success.

In another case, a company president was making a tour of the firm's Southeast Asia facilities some years back and asked local managers where the people ate. The firm's representative says: "There were literally thousands of these little shanties and shacks that were serving as makeshift restaurants and bars; and when the president saw that, he suggested that we provide one free 3,000 calorie meal at our cafeteria each day for our employees. That program has been going on for more than a decade. Apparently it does work. I do know that when we send new managers out here, our own people, they seem to put on 10 or 15 pounds during the first few months eating in the cafeteria."

One of the consumer products firms represented at the forum reports that its South African plants provide free breakfasts. The company found that most of its employees did not eat a morning meal before coming to work and were often fatigued by midmorning. The company decided to keep its cafeteria open in the morning, to provide a free breakfast, and found that it not only helped reduce worker fatigue, but significantly improved attendance records. Several other firms report also that they provide complimentary breakfasts for their employees, and encourage the employees to eat at work by paying them a wage during the breakfast period.

Sometimes, however, the traditions of local workers can get into the way of a free breakfast program. For example, one executive, despairing of his experience in several South American plants, says: "The Latins don't eat a damn thing in the morning except black coffee—